

Message Text

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PAGE 01 CARACA 03800 031539Z

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ACTION SS-25

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 2651

C O N F I D E N T I A L CARACAS 03800

STADIS/EXDIS////////////////////////////////

E.O. 11652: GDS

TAGS: BBAK, VE, US

SUBJECT: SECURITIES AND EXCHANGE COMMISSION (SEC) INVESTIGATION -
FOREMOST-MCKESSON

REF: STATE 077225

1. THE PRICE OF MILK IN VENEZUELA IS CONTROLLED BY THE MINISTRY OF DEVELOPMENT. THE COUNTRY IS NOT SELF-SUFFICIENT AND MUST IMPORT POWDERED MILK TO MAKE UP THE SHORT-FALL. THE LAW RESERVES THE RIGHT OF IMPORTATION TO THE NATIONAL GOVERNMENT AND THAT AUTHORITY HAS BEEN DELEGATED BY THE MINISTRY OF DEVELOPMENT TO THE AGRICULTURAL MARKETING CORPORATION (CORPORACION DE MERCADEO AGRICOLA - CMA), AN AUTONOMOUS GOVERNMENT AGENCY. THE LATTER, IN TURN, HAS AUTHORIZED TWO PRIVATE COMPANIES TO IMPORT POWDERED MILK: INDUSTRIAS LACTEAS, C.A. (INDULAC) AND INDUSTRIAS LACTEAS DE PERIJA, C.A. (ILAPECA).

2. AS WE UNDERSTAND IT, THERE IS NO SUBSIDY AS SUCH INVOLVED IN THE SYSTEM. RATHER, WHEN THE LANDED COST OF THE POWDERED MILK IS ABOVE THE CONTROLLED DOMESTIC PRICE (AS IS CURRENTLY THE CASE), CMA PAYS THE IMPORTING COMPANY THE DIFFERENCE PLUS A FIXED MARKETING MARKUP. THERE IS NO REFERENCE PRICE; THE COMPANY SIMPLY PRESENTS ITS DOCUMENTATION COVERING THE PURCHASE PRICE AND FREIGHT CHARGES. (WHEN THE LANDED COST IS BELOW THE

NATIONAL SELLING PRICE, AS WAS THE CASE A FEW YEARS BACK, THE IMPORTING COMPANY REIMBURSES CMA FOR THE DIFFERENCE.) IT MAY BE NOTED THAT THE COMPTROLLER GENERAL HAS RECENTLY CHARGED THAT
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PAGE 02 CARACA 03800 031539Z

CMA WAS BILLED FOR AND PAID EXORBITANT FREIGHT CHARGES ON A

EUROPEAN SHIPMENT OF POWDERED MILK. (OUR SOURCE DID NOT SPECIFY WHICH OF THE TWO COMPANIES WAS INVOLVED.)

3. ACCORDING TO OUR RECORDS, ALBERTO FINOL IS THE PRESIDENT OF ILAPECA. WE HAVE NO INFORMATION WITH RESPECT TO ANY FOREMOST-MCKESSON INVOLVEMENT IN THAT COMPANY, NOR OF FINOL'S PARTICIPATION IN WHATEVER SUBIDIARY OPERATION FOREMOST-MCKESSON MAY HAVE HERE. FINOL IS ALSO A DEPUTY IN THE LOWER HOUSE OF THE NATIONAL CONGRESS REPRESENTING THE STATE OF ZULIA. HE IS A MEMBER OF THE GOVERNING ACCIONSDEMOCRATICA PARTY AND REPORTEDLY SERVES ON THE HOUSE FINANCE COMMITTEE. AS A POLITICIAN HE IS AN OBSCURE FIGURE AND WE HAVE NO OTHER INFORMATION ON HIM. HIS CONNECTION WITH MILK PRICING WOULD SEEM TO BE IN HIS BUSINESS RATHER THAN POLITICAL ROLE.

4. COMMENT: WE GATHER THAT THIS CASE MAY BE MOVING TOWARD CHARGES OF CORRUPTION IMPLICATING ACCION DEMOCRATICA. THE DEPARTMENT WILL WISH TO KEEP IN MIND THE POSSIBLE CONSEQUENCES BECOMES KNOWN THAT WE ARE LOOKING INTO FINOL'S ACTIVITIES IN THE MILK BUSINESS, AND IF THROUGH LEAKS OR OTHERWISE ACCUSATIONS OF CORRUPTION COME TO THE ATTENTION OF THE GOV, WE WILL BE ASKED WHY THE GOVERNMENT WAS NOT PREVIOUSLY INFORMED, AS WELL AS PRESSED FOR DETAILED INFORMATION. THE EMBASSY WILL CONTINUE TO COOPERATE TO THE BEST OF ITS ABILITY, BUT WISHES TO POINT OUT THE RISKS INVOLVED IN EVEN APPEARING TO PURSUE A UNILATERAL INVESTIGATION ON VENEZUELAN SOIL.

SHLAUDEMAM

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